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Agenda item 7

[INSURANCE]

# DRAFT REPORT OF THE STANDING COMMITTEE ON DEVELOPING SERVICES SECTORS: FOSTERING COMPETITIVE SERVICES SECTORS IN DEVELOPING COUNTRIES - INSURANCE - ON ITS THIRD SESSION

Rapporteur: Mr. Edo Syarifuddin (Indonesia)

## INTRODUCTION AND ITEMS 3, 4 and 5

Speakers: Chairman
Deputy to the Secretary-General of UNCTAD
Chief of the Insurance Programme
Spain (for European Union)
Chile
China
Jordan
Egypt
African Insurance Organisation

**Note for Delegations**

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated **by Wednesday, 22 November 1995 at the latest** to:

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## INTRODUCTION

1. The Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries: Insurance held its third session at the Palais des Nations, Geneva, from 13 to 17 November 1995.

2. In the course of its session, the Standing Committee held ... formal plenary meetings and ... informal meetings.

### Opening statements

3. The **Chairman** said that insurance had become an essential mechanism of modern societies for the protection of persons and goods. In a majority of countries, the insurance sector had also become a major institutional investor, and as such its role in development and economic growth could not be ignored, either at the country level or at the international level.

4. With regard to agenda item 3, prudential regulation and measures for the protection of insurance consumers within the framework of market liberalization merited strong support. The quasi monopoly situation which had recently still existed in many developing countries had left supervisory authorities with only a secondary role, which was often limited to the compilation of statistics. The establishment of a competitive market required a profound change in regulations and in the methods and spirit of supervision. The new rules had to be clear, equitable and transparent, and they had to create a favourable environment for the development of the insurance sector, free of excessive constraints which could discourage the investment of capital and expertise, in particular as regards foreign operators in the sector.

5. With regard to agenda item 4, he felt that, beyond the established knowledge of the international markets which covered catastrophic risk, much remained to be done in many countries to better determine the technical foundations on which this type of insurance rested. It was not possible to establish a viable premium rate without knowing the extent of the risks and the values and the accumulation of goods exposed to such events. The UNCTAD studies in this respect were revealing and of high didactic value.

6. The UNCTAD secretariat had also prepared background documents on credit guarantee funds for SMEs in developing countries and on the financial implications of agricultural insurance, and he hoped that the Committee could approach these subjects, which also formed part of its work programme. Finally, he drew attention to the fact that the cycle of meetings set up by UNCTAD VIII in Cartagena had come to an end and that an evaluation of the work completed by the Committee would thus be necessary.

7. The **Deputy to the Secretary-General of UNCTAD** said that the work of UNCTAD in the field of insurance was based on the conviction that there was a positive synergy between the development process and the prevalence of insurance. In that connection, UNCTAD IX would examine the opportunities, as well as the risks, for growth and development offered by globalization and liberalization. The three substantive topics of UNCTAD IX were highly relevant to the work of the Standing Committee; they were development policy and strategy in an interdependent world, promoting international trade as an instrument for development, and promoting enterprise development. Because of its implications for development, insurance should be an integral component of development policy and strategy. Regarding trade, the issue of insurance as a promoter of trade efficiency was a fundamental one. Insurance was also an instrument that helped mitigate the inevitable risks that entrepreneurship carried.

8. The forces of nature remained a serious threat to the economic progress of many developing countries. The development process created and supported the trend towards the concentration of property and population in industrial and urban areas and critically enlarged catastrophic risk and the risk of environmental degradation. This created the need for government policy responses and national risk management for catastrophes and large risks.

9. The human resources in the insurance sectors of many developing countries required upgrading, and important fields in that respect would include credit and creditor insurance, product liability insurance, product distribution, underwriting skills, actuarial skills and surveying. Management and supervision of investment required competent human resource in both insurance undertakings and government supervisory offices.

10. Finally, he emphasized that recommendations for technical cooperation activities should be matched with commitments for financial support.

## Chapter I

### REVIEW OF CRITICAL AREAS WITH REGARD TO INSURANCE LEGISLATION, REGULATION AND SUPERVISION

(Agenda item 3)

### PROBLEMS FACED BY DEVELOPING COUNTRIES AND COUNTRIES IN TRANSITION IN THE AREA OF INSURANCE AGAINST CATASTROPHE PERILS

(Agenda item 4)

### REVIEW OF PROGRESS MADE ON THE WORK PROGRAMME, IN THE CONTEXT OF PARAGRAPH 76 OF THE CARTAGENA COMMITMENT

(Agenda item 5)

11. For its consideration of these agenda items, the Standing Committee had before it the following documentation:

"Establishment of effective insurance regulatory and supervisory systems - study by the UNCTAD secretariat" (TD/B/CN.4/52) (agenda item 3);

"Regulation and supervision of insurance operations: analysis of responses to a questionnaire and possible elements for establishing an effective supervisory authority - background information by the UNCTAD secretariat" (UNCTAD/SDD/INS/10) (agenda item 3);

"Report of the Expert Group on Insurance Supervision and regulation" (UNCTAD/SDD/INS/12) (agenda item 3);

"A summary of the major components and structures for catastrophe insurance schemes - study by the UNCTAD secretariat" (TD/B/CN.4/54) (agenda item 4);

"A ten-country analysis of catastrophe exposure, insurance sector and country financial capacity to bear risk - background document by the UNCTAD secretariat" (UNCTAD/SDD/INS/8) (agenda item 4);

"Comparative examples of existing catastrophe insurance schemes" - background document by the UNCTAD secretariat" (UNCTAD/SDD/INS/11) (agenda item 4);

"Review of activities of the secretariat pertaining to the work programme - report by the UNCTAD secretariat" (TD/B/CN.4/53) (agenda item 5).

12. The **Chief of the Insurance Programme** said that the global economy presented an infinite number of problems related to the distribution and management of risks resulting from movements of goods and capital. Insurance was a necessary instrument for many developing country entrepreneurs if they were to capture some of the multiple opportunities that global trade and investment offered. Insurance was therefore a key to developing countries' participation in global trade.

13. With regard to the work programme, an analysis of the progress achieved under the general headings of promoting transparency and fostering competitive services indicated that the Standing Committee had fulfilled its mandates. With regard to agenda item 3, the main focus of the secretariat's documentation was the establishment of effective supervision to ensure the financial stability and long-term viability of insurers in the context of privatization and liberalization. Concerning item 4, the secretariat's reports provided an illustration of information which had to be gathered before catastrophe insurance could be implemented. Under item 5, the documentation reviewed issues not included under items 3 or 4, such as credit insurance and the financial implications of agricultural insurance. It also suggested possible areas for future work.

14. Finally, she pointed out that the secretariat had been unable to satisfy certain technical cooperation requests due to a shortage of funding. The establishment of a trust fund that would allow long-term planning and targeting of needs would be helpful in that respect.

15. The representative of **Spain**, speaking of behalf of the **European Union**, said that, for the insurance market to evolve in developing countries and countries in transition, priority had to be given to the establishment of effective control and legal systems, including suitable authorization requirements, appropriate measures on solvency and technical provisions, specific measures for the correct management of insurance companies and the practical organization of staff, the progressive liberalisation of the market and accelerated programmes to privatize and dismantle monopolies, all aimed at enhanced consumer service and protection. Account also

had to be taken, according to the degree of development and modernisation of each market, of the need to establish processes for prior control of tariffs and products by the public authorities. The European Union would be intensifying its efforts along these lines, concentrating its activity on matters where it enjoyed a comparative advantage.

16. The UNCTAD study on catastrophe insurance clearly stated that much of the basic data necessary for the development of insurance mechanisms already existed in many countries, but this information had not yet been fully brought together and was not easily accessible, which was essential to define the dimensions and features of the schemes to be implemented. Emphasis had to be given to the urgent need to find solutions to the economic and human consequences arising from the occurrence of catastrophic events, particularly if predictions concerning climatic change and increases in the frequency and intensity of disasters were fulfilled; such events had recently very seriously compromised the capacities of insurance markets and national budgets, even in highly developed countries. The urgency in introducing minimal basic schemes not only arose from the spectacular increase in loss frequencies but was also closely linked to the priority objective of "safe development", including sustainable development and environmental protection. The European Union had valid references in this area in terms of highly developed systems and of others recently introduced, and it was keen to demonstrate its willingness to participate in cooperation programmes.

17. As to the programme of work, he particularly applauded the statistical analysis carried out on insurance and reinsurance operations and the examination of events in the insurance and reinsurance fields. The first of these had to continue in order to analyze trends in insurance sectors, since it was not enough just to examine the situation at one point in time. The Committee had to base its work on documents providing a precise, up-to-date and detailed view making it possible to measure the progress in the markets concerned and so to accelerate their development. It would likewise be excellent if the establishment of the proposed electronic database could be made a reality, along with cooperation with other organisations such as EUROSTAT and OECD.

18. The Committee had to continue to ensure high standards in terms of both the quality and focus of its discussions. He thought it appropriate to continue the study of specific aspects which would contribute to the knowledge and development of the insurance industry and to take up matters tabled by the secretariat or any

other of interest to the Committee. Finally, he reminded the secretariat of the need for documents to reach delegations in due time and in the official languages.

19. The representative of **Chile** said that a regulatory system should play the dual role of protecting the interests of policy-holders and ensuring the security of the insurance market. In addition, the regulatory system should contribute to the growth and development of the insurance industry, and to this end there must be adequate policies based on the two supporting pillars of solvency and transparency.

20. In Chile, the liberalisation of the insurance market had required adjustments to be made in the relevant legislation. No longer involved in rate settings, insurance legislation now concentrated on strengthening solvency through initial capitalisation requirements, ensuring investors had sufficient financial resources. Measures had also been taken in relation to the maintenance of technical reserves and shareholders' funds, as well as in respect of eligible assets. Insurance companies' investment policies had to comply with the legislative framework. The capital structure of insurance companies was also regulated, with maximum permitted gearing ratios. Life and non-life insurance operations and funds had to be maintained as separate entities. As asset and liability management became daily more complex, other relevant regulations relating to financial markets and new financial instruments also came into play.

21. The Chilean market had benefited from well developed transparency, with public quarterly reporting of results and public registers of insurance policies, insurers, brokers and foreign insurers. All changes had to be notified immediately to the authorities, and the public had access to all available information. The use of independent auditors and insurers' rating agencies contributed to the growth of transparency.

22. The expansion of life insurance and pension funds had to be a major reason for the growth of the Chilean capital markets, as pensions and social security had been transferred from the public to the private sector. They were now the main capital providers, and as a result of the stimulation of the growth of its capital markets, Chile was now less dependent on foreign capital and less affected by international financial crises.

23. The data available on the insurance sector in Chile demonstrated the very significant growth of the sector since deregulation during the period 1980-1994, as well as of the assets and operations of pension funds and insurance companies.

24. The representative of **China** said that for many developing countries insurance was still an emerging industry, and its level of development still lagged far behind that of the insurance sector in developed countries. The developing countries therefore urgently needed wide-ranging international cooperation in order to raise their level of insurance management, improve their ability in insurance operations, and enhance the quality of their insurance personnel. The direction taken by UNCTAD in developing technical assistance and exchange of experience in the field of insurance was certainly a welcome one.

25. With regard to his country, the insurance industry in China was a late-starter where the basic structure of an insurance market had barely taken shape and consisted of single-ownership state companies, limited-liability corporations and foreign-capital companies. In order to strengthen and perfect its control over the insurance market, China had recently promulgated its first insurance legislation, which took into account international insurance practice as well as the specifics of China's insurance industry, with emphasis on the monitoring of solvency requirements and regulation of market behaviour.

26. China regarded catastrophe insurance as an important means of defense against natural disasters, and in view of the ongoing changes in China's insurance industry, was prepared to borrow useful experiences in the field of catastrophe insurance from all countries and regions in order to develop a form of catastrophe insurance particularly suited to China.

27. He recognized that much work had been done by UNCTAD in the field of insurance since the inception of the Committee, and UNCTAD, as the only organ within the United Nations system entrusted with the task of research and technical cooperation in insurance, should continue and strengthen its work in this area. The recommendation by the secretariat to establish an insurance trust fund for the financing of future projects deserved support.

28. With regard to a future work plan, three areas should be emphasized. Firstly, training of personnel: to varying degrees, the insurance industry in developing countries suffered from lack of expertise, and the Committee could formulate concrete plans to enlist insurance specialists from various countries to

train insurance personnel from developing countries. Priority could be given to training inspectors for assessing flood damage, inspectors for insuring construction projects and legal personnel for the settlement of insurance claims. Secondly, cooperation for the development of insurance policies: the development of policies was an important task in the insurance industry. The Committee could develop or compile samples of policies in some major insurance categories such as floods, fire and construction, for use as reference by members. It could also hold workshops for the exchange of experiences on these subjects. And thirdly, insurance of major projects: with the development of the national economy and increasing foreign investment in developing countries, the number of major projects in these countries had also continuously increased. Many countries still lacked experience and knowledge in fields such as how to determine appropriate premiums, how to arrange for reinsurance, etc. The Committee could strengthen exchanges, coordination and cooperation in this area.

29. The representative of **Jordan** gave a brief overview of changes in his country's insurance regulations and legislation from 1950 to 1995, followed by a description of the present market structure. With regard to the work of the Standing Committee, more attention could be given to the particular problems of developing countries in the context of catastrophe insurance. Concerning the discussion on regulation and supervision, fraud was a problem, as well as legal mistakes committed within the framework of insurance practice. Sometimes policies themselves were legally flawed. This, together with the low purchasing power of the majority of the population in developing countries, represented a real hindrance to the faster growth of insurance markets.

30. The representative of **Egypt** gave a short account of the development of the insurance industry in his country, where the first national insurance company, which was also the first one for Africa and the Middle East, had been founded in 1900. The first national Egyptian reinsurance company had been established in 1957, and in 1961 all insurance companies had been nationalised and their number reduced through the incorporation of smaller companies into the bigger ones. In 1974, in the first phase of the opening up of the economy, foreign insurance companies had been permitted to operate in the economic free zone. In 1980 the law had been amended to allow private ownership of insurance companies; they had, however, to be completely Egyptian owned. The insurance law had been amended again in 1995 and now permitted foreign ownership of 49 per cent of the capital of direct insurance companies and 100 per cent of reinsurance companies.

31. While formerly a system of controlled tariffs had been used, this had now been replaced by a commission responsible for the regulation and supervision of the insurance industry; the commission had the power to liquidate insolvent or mismanaged companies which did not observe the rules. The same was the case for reinsurance. Foreign companies could now operate in Egypt provided they were registered with the supervisory authority.

32. The representative of the **African Insurance Organisation** (AIO) recognized the important support UNCTAD's Insurance Programme had given to developing countries, especially in Africa, over the last 30 years. The continuation of this programme was vital to Africa, since insurance was an important vehicle for development, as well as for promoting international trade. UNCTAD's role had become particularly important, as it was the only body in the United Nations system that provided expertise and assistance to developing countries in the field of insurance.

33. With regard to a future work programme, Africa needed UNCTAD's support in five areas. Firstly, in respect of agricultural insurance, a project proposal on a Regional Agricultural Insurance Programme had been prepared in collaboration with UNCTAD, and it should be realized in the next two years. Secondly, in human resources development, a proposal for a Regional Education and Training Programme had been submitted to UNCTAD which aimed at capacity-building at the national, subregional and regional levels. Thirdly, life insurance could play a key role in promoting savings to finance development needs, and UNCTAD had an important role to play in this area. Fourthly, in the field of catastrophe insurance, risk mapping was an essential feature in managing catastrophic risks in the developed world, and Africa needed to do its share in this regard. A dialogue had been started with UNCTAD to help launch a regional project on risk mapping. And fifthly, the Insurance Programme had requested countries and Governments to pledge financial support for its work programme, which was primarily aimed at trade promotion through the creation of competitive insurance markets in developing countries: he pledged to make a financial contribution to the Insurance Programme to enable it to continue its activities in that respect.

## Chapter II

## ORGANIZATIONAL MATTERS

### A. Opening of the session

34. The third session of the Standing Committee on Developing Services Sectors: Insurance was opened by Mr. Fernando Jaime Moscoso Salmon (Bolivia), Chairman of the Standing Committee at its second session.

### B. Election of Officers

(Agenda item 1)

35. At the opening plenary meeting of its third session, on 13 November 1995, the Standing Committee elected its bureau as follows:

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| Chairman: | Mr. Jean-Louis Bellando | (France) |
| Vice-Chairmen: | Ms. Monica Caceres Ubilla | (Chile) |
| | Ms. Isabel Corona | (Spain) |
| | Mr. M. Kanapathipillai | (Sri Lanka) |
| | Mr. Mohammed Kari | (Nigeria) |
| | Mr. Boguslaw Sosnowski | (Poland) |
| Rapporteur: | Mr. Edo Syarifuddin | (Indonesia) |

### C. Adoption of the agenda and organization of work

(Agenda item 2)

36. The Standing Committee then adopted its draft provisional agenda (TD/B/CN.4/51), as follows:

1. Election of officers
2. Adoption of the agenda and organization of work

3. Review on critical areas with regard to insurance legislation, regulation and supervision
4. Problems faced by developing countries and countries in transition in the area of insurance against catastrophe perils
5. Review of progress made on the work programme, in the context of paragraph 76 of the Cartagena Commitment
6. Other business
7. Adoption of the report of the Standing Committee, Insurance, to the Trade and Development Board.

## D. Other business

(Agenda item 6)

[To be completed, as appropriate]

## E. Adoption of the report of the Standing Committee, Insurance, to the Trade and Development Board

(Agenda item 7)

[To be completed]